

## 1. Scope and Importance of International Business

International Business conducts business transactions all over the world. These transactions include the transfer of goods, services, technology, managerial knowledge, and capital to other countries. International business involves exports and imports. It is also known as a **Global Business or an International Marketing Business** refers to the business activities or transactions carried out beyond the national borders of a country. It is much wider, comprising of all the commercial transactions taking place between two countries. International business can occur in different mode such as **export, licenses, joint venture, contract etc.**

**“According to International Business Journal, 'International business is a commercial enterprise that performs economical activity beyond the bounds of its location, has branches in two or more foreign countries and makes use of economic, cultural, political, legal and other differences between countries.”**

### Objective of International Business

- **Market Share** : Some company wants to capture large market share in international market.
- **Highly Profit** : International business could be more profitable than domestic market.
- **Optimum Utilization of Resources** : International business makes optimum utilization which produces goods on a large scale.
- **Risk Avoidance** : International business spreads its business risk so loss of one country can be avoided and balanced by profit of another company.
- **Earn Foreign Exchange** : International business earn foreign currency by export and operate of goods.

### Benefits of International Business

#### Benefits to Countries

- (i) **Earning of Foreign Exchange** : International business helps a country to earn foreign exchange which it can later use meeting its imports of capital goods, technology, petroleum products and fertilisers, pharmaceutical products and a host of other consumer products which otherwise might not be available domestically.
- (ii) **More Efficient use of Resources** : The international business operates on a simple principle produce what your country can produce more efficiently, and trade the surplus production so generated with other countries to procure what they can produce more efficiently.

- (iii) **Improving Growth Prospects and Employment Potentials :** Producing solely for the purposes of domestic consumption severely restricts a country's prospects for growth and employment. Many countries, such as Singapore, South Korea and China which saw markets for their products in the foreign countries embarked upon the strategy 'export and flourish', and soon became the star performers on the world map. This helped them not only in improving their growth prospects, but also created opportunities for employment of people living in these countries.
- (iv) **Increased Standard of Living :** In the absence of international trade of goods and services, it would not have been possible for the world community to consume goods and services produced in other countries. Now the people in these countries are able to consume and enjoy a higher standard of living.

### Benefits to Firms

- (i) **Prospects for Higher Profits :** International business can be more profitable than the domestic business. When the domestic prices are lower, business firms can earn more profits by selling their products in countries where prices are high.
- (ii) **Increased Capacity Utilisation :** Many firms setup production capacities for their products which are in excess of demand in the domestic market. By planning overseas expansion and procuring orders from foreign customers, they can think of making use of their surplus production capacities and also improving the profitability of their operations. Production on a larger scale often leads to economies of scale, which in turn lowers production cost and improves per unit profit margin.
- (iii) **Prospects for Growth :** Business firms find it quite frustrating when demand for their products starts getting saturated in the domestic market. Such firms can considerably improve prospects of their growth by plunging into overseas markets.
- (iv) **Way Out to Intense Competition in Domestic Market :** When competition in the domestic market is very intense, internationalisation seems to be the only way to achieve significant growth.
- (v) **Improved Business Vision :** The growth in international business of many companies is essentially a part of their business policies or strategic management.

### Features of International Business

- **Large Scale Operations :** In international business, all the operations are conducted on a very huge scale. Production and marketing activities are conducted on a large scale. It first sells its goods in the local market. Then the surplus goods are exported.
- **Integration of Economics :** International business integrates (combines) the economies of many countries. It uses finance from one country, labour from another country, and infrastructure from another country. It designs the product in one country, produces its parts in many different countries and assembles the product in another country. It sells the product in many countries, i.e. in the international market.

- **Dominated by Developed Countries and MNCs :** International business is dominated by developed countries and their multinational corporations (MNCs). At present, MNCs from USA, Europe and Japan dominate (fully control) foreign trade. They have large financial and other resources. They also have the best technology and research and development (R & D). They have highly skilled employees and managers because they give very high salaries and other benefits. Therefore, they produce good quality goods and services at low prices. This helps them to capture and dominate the world market.
- **Benefit to Participating Countries :** International business gives benefits to all participating countries. However, the developed (rich) countries get the maximum benefits. The developing (poor) countries also get benefits. They get foreign capital and technology. They get rapid industrial development. They get more employment opportunities. All this results in economic development of the developing countries. Therefore, developing countries open up their economies through liberal economic policies.
- **Highly Competition :** International business has to face keen highly competition in the world market. The competition is between unequal partners i.e. developed and developing countries. In this high competition, developed countries and their MNCs are in a favorable position because they produce superior quality goods and services at very low prices. Developed countries also have many contacts in the world market. So, developing countries find it very difficult to face competition from developed countries.
- **International Restriction :** International business faces many restrictions on the inflow and outflow of capital, technology and goods. Many governments do not allow international businesses to enter their countries. They have many trade blocks, tariff barriers, foreign exchange restrictions, etc. All this is harmful to international business.
- **Sensitive Nature :** The international business is very sensitive in nature. Any changes in the economic policies, technology, political environment, etc. has a huge impact on it. Therefore, international business must conduct marketing research to find out and study these changes. They must adjust their business activities and adapt accordingly to survive changes

### Scope of International Business

International business is much broader than international trade. It includes not only international trade (i.e., export and import of goods and services) but also a wide variety of other ways in which the firms operate internationally.

Major forms of business operations that constitute international business are as follows.

- **Merchandise Exports and Imports :** Merchandise means goods that are tangible, i.e., those that can be seen and touched. When viewed from this perceptive, it is clear that while merchandise exports mean sending tangible goods abroad, merchandise imports means bringing tangible goods from a foreign country to one's own country.

- **Service Exports and Imports :** Service exports and imports involve trade in intangibles. It is because of the intangible aspect of services that trade in services is also known as invisible trade.
- **Licensing and Franchising :** Permitting another party in a foreign country to produce and sell goods under your trademarks, patents or copyrights in lieu of some fee is another way of entering into international business. It is under the licensing system that Pepsi and Coca Cola are produced and sold all over the world by local bottlers in foreign countries.
- **Foreign Investments :** Foreign investment is another important form of international business. Foreign investment involves investments of funds abroad in exchange for financial return. Foreign investment can be of two types: direct and portfolio investments.
- **Monopoly Power :** It might arrive from patent rights, technological advantages, product segregation etc. Another reason for internationalization is limited market information.
- **Benefiting from Currency Exchange :** Those who add an international business to their assortment may also advantage from currency fluctuations. For example, when the U.S. dollar is down, you might be able to export more as foreign customers benefit from the favorable currency exchange rate.
- **Limitations of Domestic Market :** Some demographic trends such as a contraction in birth rate decline in domestic demand, fully tapped market potential have adverse effects on some businesses. When the domestic market is small, international business is the option for growth. Depression in the home market drives companies to explore foreign markets.
- **Increased Revenues :** One of the top advantages of international business is that you may be capable to enlarge your number of probable clients. Each country you add to your list can open up a new path to business growth and increased revenues.
- **Expand and Diversify :** International business can enlarge and expand its activities. This is because it earns very high profits. It also gets financial help from the government.
- **Opportunity to Specialize :** International markets can open up avenues for a new line of service or products. It can also give you an opportunity to specialize in a different area to serve that market.